

Winter 3-31-2019

## Financial Analysis on Macy's, Inc.

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Swenson, Emma, "Financial Analysis on Macy's, Inc." (2019). *Dissertations, Theses, and Projects*. 212.  
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# Macy's, Inc.

## M / NYSE

### Investment Rating: BUY

PRICE: USD 24.03 S&P 500: 2,834.40 DJIA: 25,928.68 RUSSELL 2000: 1,539.74

- In 2018, Macy's acquires Story, a New York City – based store.
- In 2018, Macy's started offering buy online ship/pickup in store every location.
- In 2018, Macy's began its Growth50 initiative, investing capital in 50 stores to improve the in-store experience
- I recommend buying Macy's since I believe the market has overreacted to the average troubles in the industry.

Valuation	2018 A	2019 E	2020 E
EPS	5	4.4	4.4
P/E	9.1	11	11.6
P/CFPS	4.8	5.46	5.46
P/BVPS	2.46	2.26	2.11
EV/EBITDA	10.87	10.23	10.23

### Market and Trading Information

Equity Market Cap (USD):	7.39B	52-Week Range (USD): 22.73 – 41.99
Enterprise Value (USD):	25.74B	12-Month Stock Return: -17.23%
Shares Outstanding (M):	307.5M	Dividend Yields 6.28%
Estimated Float (M):	306.44M	12-Month S&P 500 Return: 17.27%
6-mo Avg. Daily Volume (M):	25.98	Beta: .90

### Company Quick View:

<b>Location:</b> 7 West Seventh Street Cincinnati, Ohio 45202 United States	And	151 West 34 <sup>th</sup> Street New York, New York 10001 United States
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**Industry:** Department Stores SIC 5311 / Clothing Accessories (NAICS 452210)

**Description:** Macy's, Inc. is recognized as one of the nation's leading Omni channel retailers that operates department stores, websites and mobile applications to sell finished goods. It is the parent company of Macy's, Bloomingdale's, and Bluemercury. As of February 2019, Macy's operates about 867 stores with approximately 130,000 employees. The company has nearly 190 specialty stores namely Macy's Backstage, Bloomingdale's The Outlet, Bluemercury, and STORY. Macy's, Inc. Department stores and branches are located in over 43 states in the US, the District of Columbia, Guam, and Puerto Rico.

**Key Products & Services:** Clothing, footwear and accessories for men, women, kids and babies, handbags, bed & bath, furniture, jewelry, beauty products and housewares

**Website:** <http://www.macys.com>

**Analyst:** Emma Swenson

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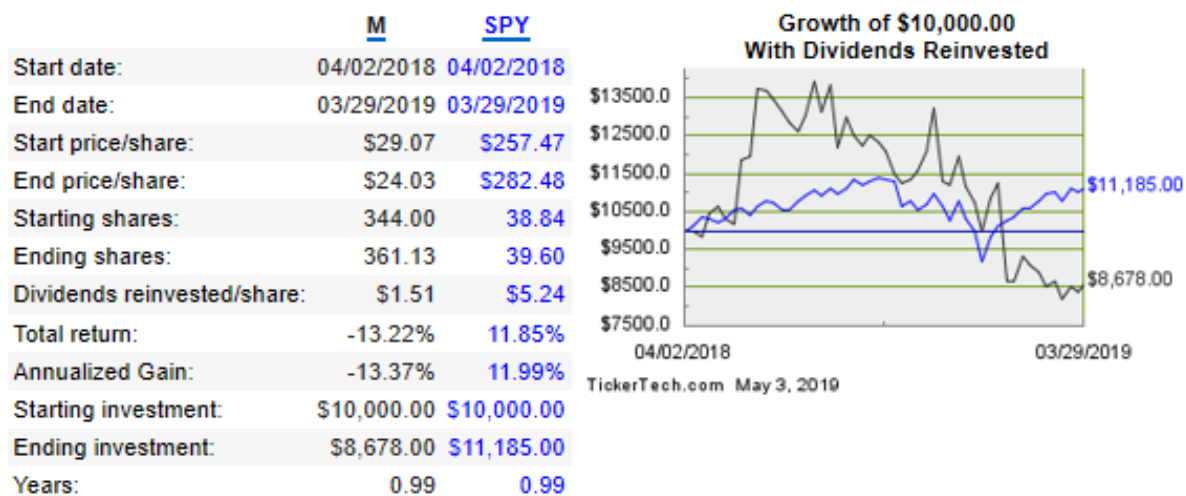
## STOCK PRICE PERFORMANCE

Figure 1: Macy's 5-year Stock Price Performance



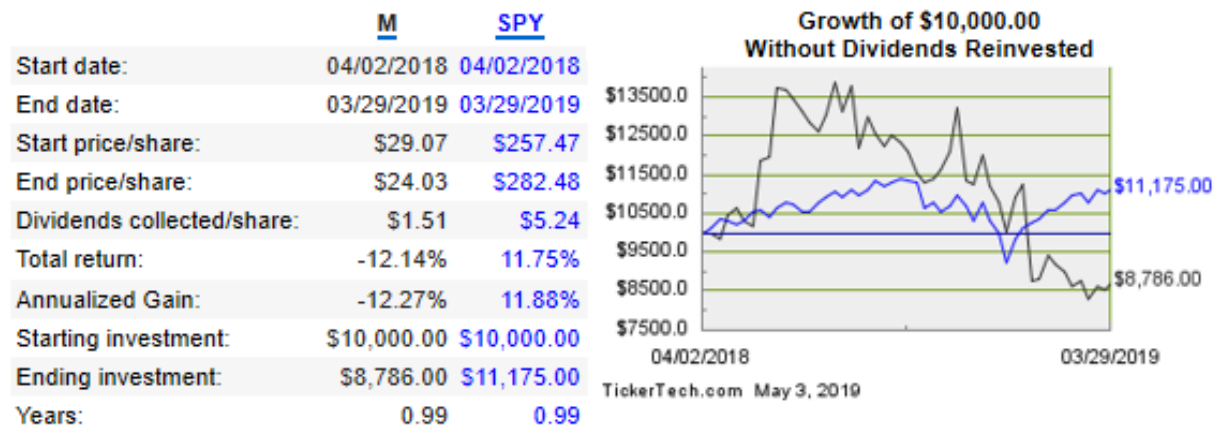
Source: Nasdaq.com

Figure 2: Macy's Total Return vs S&P 500 in 1-year With Dividends Reinvested



Source: yedreturn.com

Figure 3: Macy's Total Return vs S&amp;P 500 in 1-year Without Dividends Reinvested



Source: yedreturn.com

Macy's stock price as of March 29, 2019 was USD 24.03. Figure 1, Macy's 5-year Stock Price Performance shows a fluctuation trend in Macy's stock price in the last five years. From mid-2014 to mid-2015, Macy's maintained a good price from lowest USD56.57 to highest USD 72.59 per share. But after that, Macy's stock price continually dropped to the lowest at \$35.15 per share through quarter one of 2016. Then picking a slight pace and increasing in the first quarter of 2016, it again continued dropping in price to the lowest at USD 17.41 per share in November 2017. This is the lowest per stock price Macy's had in the last five years and its current stock price is just a few points away.

In figure 2 and 3, Macy's total return vs S&P 500 in 1-year with and without dividends reinvested, Macy's has clearly underperformed the S&P 500. Macy's one year return with dividends reinvested is at -13.22% vs S&P 500 at 11.85%, and Macy's one-year return without dividends reinvested is at -12.14% vs S&P 500 at 11.75%.

The main reasons for this price behavior and total return may be due to the threats and tough competition from the digital channel. Another reason could be that Macy's real estate value may have been ignored. Macy's gain from sale of real estate in 2018 was 389 million and in 2017 was USD 544 million. Macy's has also been consistently paying out good annual dividends to its shareholder. From 2014 to 2018, Macy's cash dividends paid per share are USD 1.19, USD 1.4, USD 1.5, USD 1.51, and USD 1.51. Despite the stock price continually decreasing, and return being at negative there are other factors an investor should consider.

With the quick analysis from the graph in figure 1, Macy's stock is currently priced at its lowest range, and considering other factors of Macy's we can assume that the company may now at any time start picking its pace back up. Macy's has a turnaround plan.

## **INVESTMENT DECISION SUMMARY**

Investors expect to get the maximum return on their money by making the right investment decisions. The main objectives of this financial report are to measure the stock value of Macy's, Inc. (Macy's) and to suggest whether an investor should invest or not in Macy's stock.

In this report, I have examined the past five years and current year's financial statements – balance sheet, income statements and cash flow statements. A completed ratio analysis has been conducted with these data. Further, I used a discounted cash flow model to forecast future free cash flows. With my projections and valuations, the model estimates Macy's stock price at USD 45.79 per share almost double from its current value that is at USD 24.03 as of 3/31/2019. Due to this huge discrepancy I have further conducted a relative valuation and also reviewed the insiders trading to get more clarification. This report also includes many qualitative data for Macy's that would support my result.

After completing my analysis on Macy's stock, I recommend a buy for Macy's stock.

## **COMPANY DESCRIPTION**

Macy's Inc., headquartered in Cincinnati, Ohio, is one of the nation's leading Omni channel retailers. It is the parent company of Macy's, Bloomingdale's, and Bluemercury. The company sells a broad range of merchandise including clothing, footwear, accessories, bed and bath, furniture, jewelry, beauty products, housewares, etc. It was formally known as Federated Department Stores Inc. until 2007 when shareholders voted to change the corporate name from Federated Department Stores, Inc. to Macy's, Inc.

## **HISTORY**

Macy's history dates from the 1800s. Rowland Hussey Macy was an American businessman who opened his own needle-and-thread store in Boston in 1844, though the store soon went bankrupt. Afterward, he began selling dry goods in 1846; ultimately, this store failed as well. In 1851 he joined with his brother to open a dry goods store in Massachusetts, and that store was a modest success. In 1858, R.H. Macy moved to New York, where he opened a small fancy dry goods store on the corner of 14th Street and 6th Avenue. At this location, he finally achieved success.

Despite this history of previous failures, R.H. Macy's determination and innovative ideas finally paid off at the age of 36 when he launched R.H. Macy & Co. His first-day sale totaled \$11.06, but by the end of the first year, his sales were approximately \$85,000 with an advertising budget of \$2,800. The famous red star in Macy's brand was adopted by R.H. Macy as a symbol of his success.

R.H Macy passed away in 1877; by then the company had expanded and became a full-fledged department store that occupied the ground space of 11 adjacent buildings. It had also started selling many different categories of merchandise leading to the foundation for the modern-day American department store. Over the years Macy's continued to see success in the retail industry by opening more regional stores and taking over other retailers to continue expansion in the market.

## **MAIN COMPETITORS**

As a major department store in the retail industry selling a wide range of merchandise from mid to high-level pricings, Macy's is vulnerable to competitions from numerous sides. Stores like Nordstrom and Saks Fifth Avenue are among the high-priced department stores that compete with Macy's. In the mid-priced department stores, Macy's competitors include JC Penny and Kohl's.

The company also faces increasing competition from discount stores. Some examples of these stores are Target, Ross, and T.J. Maxx, which in many cases offer similar products at a much lower price. In addition, in the recent years due to the rise of e-commerce, internet retailers like Amazon and eBay are providing increased competition for major department stores. The Internet retailers have made it so much easier with convenient shopping experiences for consumers that the retail industry is now struggling to compete in this shifting environment.

In this analysis, J.C. Penny Corporation Inc. will be used as a benchmark company to compare with Macy's due to its similarities in products and services provided.

## **MANAGEMENT AND CORPORATE GOVERNANCE**

### **MANAGEMENT**

Macy's top executive management team consists of 17 members. The CEO leads that team and is responsible for managing and controlling the company's business and everyday operations with the main goal of increasing the value of the company for its shareholders. The executive team also assist the CEO in ensuring that the company's operations and financial reporting are in compliance with the laws and regulations that are applicable at the time.

The management team in Macy's is diverse regarding experiences and education background. Jeff Gennette Chairman and Chief Executive Officer has been with the company since 1983, when he started as an executive trainee. He began his career from the bottom and worked his way up through holding different positions with increasing responsibilities. Some positions that Gennette held in Macy's during his career are: vice president and division merchandise manager position for men's collections, store manager for FAO Schwarz, senior vice president and general

merchandise manager for men's and children's, director of store for Broadway stores, Inc. before becoming the chairman and chief executive officer of the company. Gennette was elected CEO by the board of directors for Macy's, Inc. on March 2017 and he fully assumed the role of chairman on February 2018. All other management executives hold different degree of qualifications and other executive positions in prior companies they worked.

Table 1. The management team with their names, position, and qualification:

<b>Names</b>	<b>Position</b>	<b>Qualification or Experiences</b>
Jeff Gennette	Chairman & CEO	Graduate of Stanford University
Hal Lawton	President	MBA from University of Virginia, dual bachelor's degrees in Chemical Engineering, and Pulp and Paper Technology from North Carolina State University
Paul A. Price	Chief Financial Officer	CPA, MBA with specialization in Finance and Strategy from University of Chicago Booth School, Bachelor's degree in Accounting from DePaul University.
Elisa d. Garcia	Chief Legal Officer & Secretary	Law degree from St. John's University School of Law in New York, Bachelor's & master's degrees from the State University of New York at Stony Brook
John Harper	Chief Stores Officer	Bachelor's degree in communications and political science from University of Pittsburgh, MBA in finance and accounting from the University of Pittsburgh
Cheryl Heinonen	Senior Vice President, Corporate Communications	Bachelor's degree in Political Science from Bryn Mawr College in Pennsylvania
Jeffrey A. Kantor	Chief Merchandising Officer	Multiple roles with Macy's
Danielle Kirgan	Chief Human Resources Officer	Bachelor's degree in Business Administration from Illinois State University
Naveen Krishna	Chief Technology Officer	Master's degree in management from Georgia Institute of Technology; a master's degree in mechanical engineering from the University of Missouri; a bachelor's degree in mechanical engineering from Mysore University in India
Richard A. Lennox	Chief Marketing Officer	Bachelor's degree from Reading University in Berkshire, England
Patti Ongman	Chief Merchandising Officer	Bachelor's degree from University of Alabama
Jill Ramsey	Chief Product and Digital Revenue Officer	MBA from Northwestern University's Kellogg Graduate School of Business, Bachelor's degree in English from University of Chicago
Douglas W. Sesler	Senior Vice President, Real Estate	Bachelor's degree in government from Cornell University
Rachel Shechtman	Brand Experience Officer, Founder of STORY	Bachelor's degree in Economics from Colorado College

Tony Spring	Chairman & CEO, Bloomingdale's	Bachelor's from Cornell University School of Hotel Administration
Marla Beck	CEO, Co-Founder of Bluemercury, Inc.	MBA from Harvard Business School, Master of Public Administration from Harvard University's John F. Kennedy School of Government, a bachelor's degree in Economics from the University of California, Berkeley
Barry Beck	COO, Co-Founder of Bluemercury, Inc.	Bachelor's degree from Cornell University.

Source: Nasdaq.com

## CORPORATE GOVERNANCE

The board of directors in Macy's has 11 board members with four committees: Audit, Compensation & Management Development, Nominating & Corporate Governance, and Finance. Each committee has one chair with four members, except the Nominating & Corporate Governance committee has one chair with three members. The directors in these four committees are all independent and non-employee, except for Chairman and CEO Gennette, he is not independent and not a member in any of the four committees.

Macy's is committed to good corporate governance which involves balancing the interests of a company's many stakeholders, such as shareholders, management, customers, suppliers, financiers, government and the community. As of March 2019, according to the Institutional Shareholder Service (ISS), Macy's corporate governance quality score is one. The pillar scores are Audit: 2, Board: 1, Shareholder Rights: 1, Compensation: 9. these scores indicate decile rank relative to index or region, with decile score of one indicates lower governance risk, while 10 indicates higher governance risk.

Table 2. Macy's Board of Directors' names, age, role, compensation and former positions:

Names (Age)	Role	Compensation	Former Positions
David Abney	Independent Director		Chairman & CEO United Parcel Service, Inc.
Francis S. Blake (69)	Independent Director	\$ 234,214	Former Chairman & CEO, The Home Depot
John A. Bryant (53)	Independent Director	\$ 253,328	Former Chairman, President, and CEO, Kellogg Company
Deirdre P. Connelly (57)	Independent Director	\$ 232,553	Former President, North American Pharmaceuticals GlaxoSmithKline
Jeff Gennette (57)	Chairman & CEO	\$ 11,088,255	Chairman & CEO , Macy's
Leslie D. Hale (47)	Independent Director	\$ 236,060	President & CEO, RLJ Lodging Trust
William H. Lenehan (42)	Independent Director	\$ 227,974	President & CEO, Four Corners Property Trust, Inc.



Sara Levinson (68)	Independent Director	\$ 232,185	Co-Founder & Director, Katapult
Joyce M. Roche (72)	Independent Director	\$ 245,699	Former President, CEO, Girls Incorporated
Paul C. Varga (55)	Independent Director	\$ 242,702	Former Chairman and CEO, Brown-Former Corporation
Marna C. Whittington (71)	Independent Director	\$ 595,213	Former CEO, Allianz Global Investors Capital, and Lead Director of the Board.

Source: Nasdaq.com

## **SHAREHOLDER ANALYSIS**

Macy's was incorporated in 1929, and its shares are common stock that is traded on the NYSE with trading symbol M. It has 307.7 million shares of common stock outstanding. Macy's ownership summary represents an institutional holding with 96.47% of its outstanding shares owned by institutions and only 0.75% by individual stakeholders.

This is a significant ownership by institutions which may indicate a good investment. Institutions' portfolio managers are better experts in analyzing stock trends because they work with teams of professionals, have more resources and access to a host of corporate and market data to help them get more accurate results. However, individual investors also must be alert on the fact that sometimes these institutions that holds the largest share could influence the share price. Example: sudden decision on selling a large share may lead to excess supply and drop in the stock price.

The table below constitutes of the top 10 owners of Macy's, Inc.

Table 3. Top 10 Owners of Macy's Inc.

Stockholder	Stake	Shares owned	Total value (\$)
<b>The Vanguard Group, Inc.</b>	11.93%	36,672,085	909,100,987
<b>BlackRock Fund Advisors</b>	7.65%	23,517,150	582,990,149
<b>AQR Capital Management LLC</b>	5.60%	17,214,592	426,749,736
<b>SSgA Funds Management, Inc.</b>	5.08%	15,617,518	387,158,271
<b>SunAmerica Asset Management LLC</b>	3.91%	12,026,152	298,128,308
<b>Dimensional Fund Advisors LP</b>	2.26%	6,960,132	172,541,672
<b>SEB Investment Management AB</b>	2.22%	6,810,988	168,844,393

Stockholder	Stake	Shares owned	Total value (\$)
<b>Goldman Sachs &amp; Co. LLC (Private ...</b>	2.00%	6,135,415	152,096,938
<b>Geode Capital Management LLC</b>	1.68%	5,150,836	127,689,224
<b>Northern Trust Investments, Inc.</b>	1.64%	5,053,780	125,283,206

Source: Nasdaq.com

The table below constitutes of the top 10 Mutual Funds Holding of Macy's, Inc.

Table 4. Top 10 Mutual Funds Holding Macy's Inc.

Mutual fund	Stake	Shares owned	Total value (\$)
<b>AIG Focused Dividend Strategy Fun...</b>	3.67%	11,284,258	279,736,756
<b>Vanguard Total Stock Market Index...</b>	2.68%	8,229,672	204,013,569
<b>Vanguard Mid Cap Index Fund</b>	2.38%	7,306,750	181,134,333
<b>iShares Select Dividend ETF</b>	2.15%	6,608,474	163,824,070
<b>Vanguard 500 Index Fund</b>	1.91%	5,871,467	145,553,667
<b>Government Pension Fund - Global ...</b>	1.22%	3,741,537	92,752,702
<b>SPDR S&amp;P 500 ETF</b>	1.09%	3,340,541	82,812,011
<b>Vanguard Institutional Index Fund</b>	0.95%	2,923,087	72,463,327
<b>Oppenheimer S&amp;P Ultra Dividend Re...</b>	0.95%	2,911,820	72,184,018
<b>Vanguard Mid Cap Value Index Fund</b>	0.92%	2,813,643	69,750,210

Source: Nasdaq.com

## INSIDER TRADING

According to the data for insider transactions for the last 12 months, Chairman & CEO Jeffrey Gennette made the biggest insider purchase. His single purchase was \$290,900 worth of shares at a price of \$29.09 per share. This indicates a positive sign for M stock. We can also clearly see that in the last 12 months the insiders bought 15,246 shares of a total of \$465,856 and executed option of 393,749 share. They also sold 330,365 shares valued at \$11,485,907. We can see that the insiders sold a much larger number of shares than the ones bought, which indicates a

potential overvaluation if the insiders are selling due to overvaluation. Macy's insiders own about 0.3% of the company shares.

Table 5. The insider transactions in the last 12 months:

<u>Insider</u>	<u>Relation</u>	<u>Last Date ▼</u>	<u>Transaction Type</u>	<u>Owner Type</u>	<u>Shares Traded</u>	<u>Last Price</u>	<u>Shares Held</u>
<u>ROCHE JOYCE M</u>	Director	3/27/19	Sell	direct	10,000	24.3041	3,647
<u>ROCHE JOYCE M</u>	Director	3/27/19	Option Execute	direct	10,000	11.32	13,647
<u>LAWTON III HARRY A</u>	Officer	11/16/18	Sell	direct	200,000	33.0909	26,038
<u>LAWTON III HARRY A</u>	Officer	11/16/18	Option Execute	direct	200,000	21.32	226,038
<u>LENEHAN WILLIAM H</u>	Director	11/16/18	Buy	direct	3,154	31.74	11,214
<u>GARCIA C ELISA D</u>	Officer	9/21/18	Sell	direct	4,628	35.8526	6,099
<u>GARCIA C ELISA D</u>	Officer	9/20/18	Option Execute	direct	10,727		10,727
<u>LAWTON III HARRY A</u>	Officer	9/10/18	Sell	direct	28,684	36.0546	26,038
<u>LAWTON III HARRY A</u>	Officer	9/8/18	Option Execute	direct	54,722		54,722
<u>LENEHAN WILLIAM H</u>	Director	8/17/18	Buy	direct	2,092	35.7785	8,060
<u>GENNETTE JEFFREY</u>	Officer	4/12/18	Buy	direct	10,000	29.09	99,053
<u>WILLIAMS FELICIA</u>	Officer	3/28/18	Sell	direct	785	28.9943	0
<u>WILLIAMS FELICIA</u>	Officer	3/27/18	Option Execute	direct	785		785
<u>CONNELLY DEIRDRE P</u>	Director	3/8/18	Sell	direct	9,092	29.245	7,092
<u>CONNELLY DEIRDRE P</u>	Director	3/8/18	Option Execute	direct	10,000	25.32	16,184
<u>WILLIAMS FELICIA</u>	Officer	3/2/18	Sell	direct	10,000	29.415	0
<u>WILLIAMS FELICIA</u>	Officer	3/2/18	Option Execute	direct	10,000	24.85	10,000
<u>WHITTINGTON MARNA C</u>	Director	3/2/18	Sell	direct	20,000	30.3	44,834
<u>WHITTINGTON MARNA C</u>	Director	3/2/18	Option Execute	direct	20,000	11.32	54,834
<u>ROCHE JOYCE M</u>	Director	3/2/18	Sell	direct	8,345	30.3803	3,647

<u>ROCHE JOYCE</u> <u>M</u>	Director	3/2/18	Option Execute	direct	10,000	25.32	11,992
<u>HOGUET</u> <u>KAREN M</u>	Officer	3/1/18	Sell	direct	67,515	29.36	0
<u>HOGUET</u> <u>KAREN M</u>	Officer	3/1/18	Option Execute	direct	67,515	24.85	67,515

Source: Nasdaq.com

## **INDUSTRY ANALYSIS**

Macy's operates in a retail – general merchandise/department stores industry with SIC 5311 for department store and NAICS 448150 for clothing accessories store. This industry is intensely competitive and subject to sudden shifts in consumer trends and spending. In the recent years the department store chains appeared to be suffering from decreasing revenue and employment. According to a report in IBISWorld.com, *“in the past five years, the department stores in the retail industry has declined by -4.1% to reach revenue of \$149 billion in 2018. In the same timeframe, the number of businesses has declined by -1.3% and the number of employees has declined by -2.4%”*.

## **EXTERNAL ENVIRONMENT**

Macy's is a strong player in the retail industry competing against other retailers like J. C. Penney Company, Inc., Dillard's, Inc., Burlington Stores, Inc., Kohl's Corp., etc.

There are many external trends that affect the retail industry, six trends to be evaluated include:

**Demographics:** Retailers initiate target market consisted of various class, gender, and age, along with culture and preferences. This segment is consumption oriented. Customers may not be loyal to a retailer but have an established shopping patterns that can be met by most retailers. Macy's host various programs, promotions, and specials events to bring customers into the store.

**Economy:** The economic conditions of a country play an important role in the retail industry. Any downturn in the economy will negatively impact the retail industry, mainly the department stores sector. In the past few years these retailers for department stores have faced financial challenges due to decrease in customer spending.

**Political/legal:** Retailers are subject to various laws and regulations imposed at the state and federal levels. Retailers must make sure they are always up to date to prevent as much lawsuits or any legal proceedings against them.

**Social:** Retailers are always collaborating with nonprofit organizations to show their appreciation and involvement with the community. Macy's donates thousands of dollars every year to nonprofit organizations and gives gifts that are directed to the company's core focus areas like arts and culture, education, community awareness, women issues, etc. Macy's also has their volunteering programs encouraging the employees into getting involved.

**Technology:** Technology has been a positive impact in the retail industry for smooth functioning and easy access. However, we can also see how the major shift of consumers going from traditional retail stores to e-commerce due to technology and shopping preferences has disrupted the traditional retail industry. One of the leading e-commerce retailer is Amazon and it poses a big threat to all traditional retailer. Another major concern for the industry is the smooth functioning of the technology, because if the technology does not function properly it may materially affect the retailer.

**Environmental:** The retail industry has been involved in creating waste and affecting the environment negatively. For better reputation, retailers have social responsibility towards the environment. Macy's, Inc. implements good business practices that utilize resources in a more efficient manner and operates in new ways that minimize the impact on the environment.

### **PORTER FIVE FORCES**

**Threat of New Entrants (High):** There is little that is unique to bring to the table in the retail industry for department stores, but new entries might find unique ways to popularize their own products and build novel brands. The use of social media and innovative minds are always there. Although the industry imposes certain barriers for new companies from entering into the market, it is not too difficult to get a foot in the door.

**Threat from Substitute Products (High):** The department store retail industry has a high threat of substitutes, as there are plenty of substitutes available in the market. The products offered by Macy's are not unique from other department stores besides certain styling and branding, so it is vulnerable to substitute products.

**Rivalry among the existing players (High):** The rivalry among the existing department stores is very high. Macy's face tough competition both with its traditional stores and online for constant change in fashion, season, and preferences.

**Bargaining Power of Suppliers (Low):** The suppliers in the department store, retail industry has very little power to demand higher prices due to the high number of existing suppliers. Retail giants like Macy's have the advantage of getting the best price and enjoying a bigger margin of profits for the sale of products.

**Bargaining Power of Buyers (High):** in the department stores, retail industry, the buyers do not have a direct power but can highly influence to push the prices down. If the prices are not favorable buyers can easily move to a different retailer for similar products. Macy's use different techniques and strategies in offering special sales, discounts and clearances to attract buyers.

## STRATEGY

One of the primary factors of Macy's success is the overall strategy of the organization. In the 2017 Macy's Investor Meeting, management outlined their "North Star Strategy," and just like the famous Macy's Red Star, it consists of five points:

Point 1: From Familiar to Favorite: Macy's strives in marketing to understand and anticipate their customers' need. Macy's conduct various promotional events and programs to keep the excitement and reward its loyal customers.

Point 2: It Must Be Macy's: Offering products that can only be found in Macy's provide the company an advantage over its competitors. This strategy includes all the latest styles and home fashion for everyday and special occasions, including both private brands and exclusive national brands. In the recent years, Macy's has also simplified its pricing structures to appeal to more value-oriented customers through Macy's Backstage and Last Act concepts.

Point 3: Every Experience Matters: Since 2014, Macy's has led digital and mobile platforms and has had a mobile-first focus. The omnichannel give customers a whole new level of convenience and comfort in shopping. Customers can now access their account online and shop whenever and from wherever they want.

Point 4: Funding our Future: Macy's continually focuses on creating value by reducing costs and operating more efficiently and effectively. Since 2015, Macy's has removed \$1.5 billion in costs while reinvesting \$500 million in growth strategies. Macy's also focuses on creating value from its real estate portfolio and earned \$673 million from its assets sales in 2016 and \$204 million in 2015.

Point 5: What's New, What's Next: Macy's has always been innovative and one of the company's strategies is thinking differently about future growth. The corporate focus on exploring how to innovate and turn consumers and technology trends to the brand's advantage. Macy's will continue to improve digital concepts, brand partnerships, and acquisitions.

In 2018 Macy's - *"continues to implement its North Star strategy to transform its omnichannel business and focus on key growth area, embrace customer centricity and optimize value in its real estate portfolio"*- company's 2018 10-K report. According to the management this strategy has resulted in a positive contribution to the company in 2017 and 2018.

## INVESTMENT RISK

### OPERATIONS RISKS

Macy's set strategic plans for increasing sales and revenues but these strategies are not always successful. There may be interference from change in taste, demand, economic, and inflation. These interferences may negatively impact the sales and operations of the company. Macy's is

well known for innovations and adaptation to swift changes, however the risk still lies. The retail industry, especially the department stores faces high risk of competition. The main factors for these competitors are style, quality, brand, price, service, merchandise options and customer experience. Macy's specific competitors vary from market to market.

### **TECHNOLOGY RISKS**

The retail industry relies extensively on their computer systems for almost everything. Processing transactions, tracking inventories, recording, summarizing results and managing daily business activities. Unfortunately, these computer systems are subject to damages, security breaches, cyber-attacks, power outages, network issues and so on. In case of any unfavorable incidents mentioned above will result in major investments for fixtures, delay in operations and drop in revenue. Macy's also highly depend on technology-based e-commerce that any improper functions or disruptions in the network will impact the company's sales.

### **SUPPLY CHAIN AND THIRD-PARTY RISKS**

Macy's highly depend on its designers, suppliers, and other third parties for goods and services, therefore numerous risks arise for any uncertainties. Macy's operations could be affected by any failures to fulfil obligations by its designers or suppliers that is not under the company's control. The company is also not immune to any political and economic situation that may arise nationally or globally.

### **FINANCIAL RISKS**

The changes in inflation, credit, and capital markets create obstacles for the company to access funds when needed. The uncertainties in rising and falling of Macy's stock price is also a high financial risk factor. Other financial risks include but not limited to are, strategic actions by Macy's competitors, future sales, general real estate and economic conditions, etc.

### **PEER ANALYSIS**

Macy's, Inc. competes with other major players in the Department Store Retail Industry. In this analysis we will look into some of its main competitors, namely, J. C. Penney Company, Inc., Dillard's, Inc., Burlington Stores, Inc., and Kohl's Corp

#### **DILLARD'S, INC.**

Dillard's, Inc. is an American department store chain and it ranks among the nation's largest fashion apparel, cosmetics and home furnishing retailers. The company operates through Retail Operations and Construction Segments.

The retail operations offer a wide selection of merchandise including fashion apparel for men, women and children, accessories, cosmetics, home furnishing and other consumer goods. And the construction segment constructs and remodels store through CDI Contractors, LLC.

Dillard's, Inc. was originally founded in 1938 in Nashville, Arkansas by William T. Dillard. The company was incorporated in 1964 and has been rapidly growing and expanding since then. The Dillard family still controls the company with Class B Common Stock and Class A common stock is publicly traded on the NYSE under ticker symbol DDS. As of February 2019, Dillard's operates around 291 department stores and a website [www.dillards.com](http://www.dillards.com), in over 29 states. Dillard's has 17 key executive officers and 12 board of directors.

### **BURLINGTON COAT FACTORY INVESTMENTS HOLDINGS, INC.**

Burlington Stores, Inc. is a retailer of branded apparel, and headquartered in New Jersey. As of February 2019, the company operates 674 retail stores, including an internet store [www.burlingtonstores.com](http://www.burlingtonstores.com), in 45 states and Puerto Rico. Burlington offers a complete line of value-priced apparel and shoes for women, men, babies, juniors, girls and boys, handbags and accessories, beauty and fragrance, home, furniture and toys.

Burlington's history goes back to the 1920s when the company was initially founded as a wholesale of ladies' coats and junior suits. The company first went public offering an IPO in 1983 and a second time in 2013 offering an IPO at \$17 per share in October. Burling was formerly known as Burlington Coat Factory but it rebranded the chain to Burlington Stores in 2015 to show and communicate that Burlington is more than just coats.

Burlington has six key executive officers and eight board of directors. Its stock is traded in NYSE under ticker symbol BURL.

### **KOHL'S CORPORATION**

Kohl's history dates back in the 1960s, and was founded by Max Kohl. Kohl's Corp. is an operator of department stores headquartered in Milwaukee Suburb of Menomonee Falls, Wisconsin. As of February 2019, the company operates around 1,159 department stores, a website ([www.kohls.com](http://www.kohls.com)), 12 FILA outlets, and four Off-Aisle clearance centers in 49 states. Kohl's is considered to be between the higher-end and moderately-priced department store. It sells proprietary and national brand apparel, footwear, accessories, and beauty and home products. Kohl's carries both national brands and proprietary brands that are only available at Kohl's. These brands include Apt. 9, Croft & Barrow, Jumping Beans, SO and Sonoma Goods for Life and other exclusive brands that are developed and marketed through agreements with nationally-recognized brands such as Food Network, Jennifer Lopez, Marc Anthony, Rock & Republic and Simply Vera Wang.

Kohl's has nine key executive officers and nine board of directors. Its stock is traded in NYSE under ticker symbol KSS.



## J. C. PENNEY COMPANY, INC.

J. C. Penney Company, Inc. was founded by James Cash Penney in 1902 and was incorporated in Delaware in 1924. It is a holding company whose principal operating subsidiary is J. C. Penney Corporation, Inc. As of February 2019, the company operates about 864 department stores and a website [www.jcpenney.com](http://www.jcpenney.com), in 49 states and Puerto Rico.

J. C. Penney sells a wide varieties of family apparel and footwear, accessories, fine and fashion jewelry, beauty products through Sephora inside J. C. Penney, and home furnishings. In addition, its merchandise J. C. Penney also offers services such as stylings salon, optical, portrait photography and custom decorating.

The company has nine key executive officers, and ten board of directors. Its stock is traded in NYSE under ticker symbol JCP.

Table 6. The Peer Analysis

Company	Ticker Symbol	Market Cap	PE ratio	P/BV	EV/ EBITDA	DEBT/ Assets	ROA	ROE
Macy's, Inc.	M	7.2B	6.56	1.15	4.01	.25	5.76%	18.35%
J.C. Penney Co, Inc.	JCP	.42B	NA	0.36	6.54	.52	-3.17%	-20.06
Dillard's, Inc.	DDS	1.5B	10.71	1.05	4.62	.17	4.81%	10.08%
Burlington Stores, Inc.	BURL	11.41B	28.16	35.01	15.58	.32	14.12%	203.13%
Kohl's Corp	KSS	11.38B	14.41	2.06	5.44	.27	6.22%	14.67%

Source: Mergent Online and gurufocus.com

## HISTORICAL FINANCIAL ANALYSIS

### RATIO ANALYSIS

#### Productivity Ratios

M and JCP both have negative growth in sales, indicating that the companies are struggling. M's growth in sales went from 0.6% in 2014 to -3.7% in 2018. In the past four years M's ratio represents the company's struggle for earning revenue. Same with JCP's growth in sales ratio trend, going from 3% in 2014 to -3.9% in 2018. M is performing slightly better than JCP.

Both M and JCP has maintained a good ratio for inventory turnover ratio from 2014 to 2018. M had 5.03 in 2014 which is highest in its last five years, and then slightly decreasing over the years to 4.80 in 2018. This may indicate that the company's inventory sales pace is dropping. On the other hand, JCP had 4.62 in 2014 and has maintained more stability comparing to M. In fact, in 2018 it shows a slight improvement indication the company is becoming more efficient in its sales. M initially has better ratio but JCP has shown improvement over the past five years.

M's asset turnover has been consistent in the past five years with 1.29 in 2014 and 1.28 in 2018. Whereas JCP's asset turnover has increased from 1.18 in 2014 and 1.56 in 2018. JCP's increasing asset turnover ratio may indicate that the company is simply becoming efficient and stretching its capacity and needs to invest to grow.

<b>M</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Growth in sales	-3.70%	-4.80%	-3.70%	0.60%	NA
Inventory turnover	4.8	4.77	4.92	5.1	5.03
Total Asset Turnover	1.28	1.30	1.32	1.31	1.29

<b>JCP</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Growth in sales	-3.90%	-0.30%	-0.60%	3.00%	NA
Inventory turnover	4.93	4.53	4.4	4.64	4.62
Total Asset Turnover	1.56	1.49	1.35	1.34	1.18

### Liquidity Ratios

In this category of ratios, M is performing better than JCP. M's current ratio has a steady decrease from 1.64 down to 1.49 in the last five year, and JCP's current ratio also has a steady decrease from 1.88 to 1.52 in the last five years. However, JCP's current ratio has decreased more comparing to M.

Likewise, when we look at the quick and cash ratios, M's quick ratio has decreased from .59 to .45 and JCP has decreased from .68 to .27, and M's cash ratio has decreased from .43 to .29 and JCP has decreased from .60 to .17. With this information we can assume that M is more liquid and doing a better job at managing its coverage for current outstanding debts.

M's operating cycle has been increasing slightly over the past five years. It has 78.34 days in 2014 and 81.43days in 2018. On the other hand, JCP has maintained its operating cycle with 82.01 in 2014 and 82.23 in 2018. M is performing slightly better than JCP but M may still need to focus in improving its efficiency in converting its purchased inventory into cash.

M's cash cycle has also been slightly increasing in the past five years, its cash cycle days from 2014 to 2018 are 43.02, 40.65, 44.94, 49.03, and 43.29. And, JCP's cash cycle has also increased from 2014 to 2018 with data 36.5, 37.81, 39.24, and 42.95. Here JCP is doing a better job in converting its other resources into cash but M has maintained its ratio while JCP's number of days in converting other resources into cash has increased.

<b>M</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Current ratio	1.49	1.39	1.37	1.69	1.64
Quick ratio	0.45	0.41	0.38	0.62	0.59
Cash ratio	0.29	0.24	0.2	0.44	0.43
Operating Cycle	81.43	83.84	81.74	77.14	78.34
Cash Cycle	43.29	49.03	44.94	40.65	43.02

<b>JCP</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Current ratio	1.52	1.46	1.62	1.59	1.88
Quick ratio	0.27	0.28	0.44	0.45	0.68
Cash ratio	0.17	0.2	0.37	0.38	0.6
Operating Cycle	82.23	82.51	81.62	79.63	82.01
Cash Cycle	42.95	39.24	37.58	37.81	36.5

### Financial Risk (Leverage) Ratios

In 2018, M's liabilities are 242% of shareholders' equity whereas JCP's liabilities are 510% of shareholders' equity. Both companies have very high ratios indicating an aggressiveness in debt financing its growth with debt. However, M is still at a better position comparing to JCP.

Interest coverage ratio is a debt ratio and profitability ratio that helps to measure a company's ability to handle its short-term financing cost. M's Interest coverage ratio are very positive both in accounting based and cash based, which is a positive indication for investors to invest.

Whereas for JCP the Interest coverage ratio is not good. The company has a greater debt service burden and correspondingly greater risk of defaulting or financial insolvency.

Total debt-to-assets ratio measures the total amount of debt relative to assets. A lower ratio suggests stronger financial structure and vice versa. Both M and JCP have high ratios for Total debt-to-assets which indicates a higher risk. However, we can still clearly see that M is doing better than JCP.

<b>M</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total debt-to-equity ratio	2.42	3.59	3.84	2.99	2.46
Interest coverage ratio (accounting-based)	5.18	5.21	6.45	7.04	7.13
Interest coverage ratio (cash-based)	8.48	8.13	9.39	9.57	9.76
Total debt-to-assets ratio	0.71	0.78	0.79	0.75	0.71

<b>JCP</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Total debt-to-equity ratio	5.60	5.10	5.88	6.21	4.44
Interest coverage ratio (accounting-based)	-0.01	0.84	0.85	0.00	-0.91
Interest coverage ratio (cash-based)	-0.01	0.84	0.85	0.00	-0.91
Total debt-to-assets ratio	0.85	0.84	0.85	0.86	0.82

### Profitability/Valuation Ratios

From the Profitability/valuation ratios table we can see that M is performing better than JCP in every aspect. M's gross profit margin went from 43.8% in 2014 to 43% in 2018 representing a good amount of money left over after deducting the cost of goods sold. Whereas JCP's gross profit margin went from 34.8% to 34.5%. JCP has maintains its gross profit margin ration but the company could do better.

The EBITDA margin for M is also over 10% and JCP only between -3% to 2.5%. M has a much better profitability as percentage of tis total revenue and doing better in cutting costs. M also has a good operating profit margin with 6.3% to 10.3% while JCP is only sitting between -3% to 2.2%. Macy's is again doing better in managing its expenses comparing to JCP. M's NOPAT margin is between 5.1% to 13% and JCP's NOPAT margin between -0.1% to 1%, which is quite the difference. Clearly, M 's core business, net of taxes is much better than JCP.

M's ROA in 2014 was 12.79% that dropped down to 8.02% whereas JCP's ROA in 2014 was at -3.55% and increased to -0.04%. M is clearly generating a good profit for each dollar in its assets whereas JCP is in the losses. M's ROIC has decreased from 10.37% in 2015 to 8.27% in 2018, but it has still generated good return for those who have provided capital. M has yet again out performed JCP whose ROIC was 0.64% in 2015 and dropped to -0.24% in 2018.

<b>M</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Gross profit margin	43.00%	43.50%	43.00%	43.70%	43.80%
EBITDA margin	10.20%	11.40%	12.50%	14.00%	13.60%
Operating profit margin	6.30%	7.30%	8.60%	10.30%	9.90%
NOPAT margin	5.10%	4.60%	5.60%	6.40%	13.00%
Return on Assets (ROA)	8.02%	9.53%	11.31%	13.45%	12.79%
ROIC	8.27%	7.26%	8.94%	10.37%	NA

<b>JCP</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
Gross profit margin	34.50%	34.60%	35.70%	36.00%	34.80%
EBITDA margin	0.00%	2.20%	2.50%	0.00%	-3.00%
Operating profit margin	0.00%	2.20%	2.50%	0.00%	-3.00%
NOPAT margin	-0.10%	-1.00%	1.00%	0.40%	-0.20%
Return on Assets (ROA)	-0.04%	3.24%	3.33%	-0.02%	-3.55%
ROIC	-0.24%	-1.76%	1.82%	0.64%	NA

## **PROSPECTIVE FINANCIAL ANALYSIS**

Using Macy's past five years' financial data derived from Mergent Online and YCharts, I have analyzed Macy's performance and made projections for the company's next five years.

In my projection, the consolidated income statement for Macy's reflect a consistent net income around the range of USD 1.4 billion from 2019 to 2023. It also maintains a stable sales revenue and cost of goods sold expenses. The operating profits are projected from USD 1.6 billion to USD 1.7 billion. I project Macy's to be a profitable business in the long run.

During the projection period, I project Macy's to generate significant cash flow to support overall debt levels and reinvest in the business. In the operating cash flow, Macy's will generate positive cash flow through the projection period. From 2019 to 2023, my projections show Macy's net cash from operating activities around USD 2.4 billion. This generated cash flow will then be used and support the investing and financing activities for Macys. The total net cash flow for 2019 is negative and after that, it then increases and maintains a value around USD 1.4 million. Even with the negative cash flow projected in 2019, Macys will still show a positive ending cash balance.

Based on the last five years performance, Macy's revenue is projected to increase by 0.1% on average in the future years.

## **VALUATION AND INVESTMENT DECISION**

### **INTRINSIC VALUATION**

My projection and valuation for Macy's stock price arrived at \$42.13 per share, with a target for \$43.72 driven by using the discounted free cash flow (DCF) model. The forecasted cash flow was discounted at the company's estimated WACC at 6.40%.

In my valuation Macy's weighted average cost of capital is 6.40% derived with the following inputs.

- Target percent financed with long-term debt 40%
- Target percent financed with preferred stock 0
- Cost of equity 7.81%
- After-tax cost of long-term debt 4.27%

Macy's ROIC is 9.71% as of January 31, 2019. Macy's generates higher returns on investment than it costs the company to raise the capital needed for the investment. Macy's is earning excess returns. A firm that expects to continue generating positive excess returns on new investments in the future will see its value increase as growth increases.

All the inputs in the forecasting were projected using Macy's 5 years historical financial data, from the 10K report filed by the company. My projection of price per share for Macy's is almost double than what it is currently being traded in NYSE at \$24.03 on 3/29/2019.

## RELATIVE VALUATION

For relative valuation I have created a table below:

Table 11: Relative valuation ratios

	Industry Avg	Macy's, Inc. (M)	JC Penney Co. Inc (JCP)
PE Ratio	20.8	5.42	NA
PS Ratio	0.685	0.37	0.03
Price to BV	2.625	1.62	0.31
EV	N/A	10.96B	3.946B
EV to EBITDA	9.9	4.18	6.5

Source: ycharts.com

As shown in the table above, we can see the industry's average PE ratio at 20.8 and Macy's PE ratio at 5.42, which may indicate that M stock is undervalued. As for its competitor JCP doesn't have a PE ratio because the company is currently losing money.

Next following the PS ratio again Macy's ratio of 0.37 is below the industry average ratio of 0.685 which supports the indication that its stock is undervalued. But for JCP, its PS ratio is at 0.03 indicating JCP stock may also be underpriced.

Observing the price to book value ratio Macy's is standing at 1.62 indicating that the market is willing to pay more than the equity per share, whereas JCP's price to book value ratio is at 0.31 which either indicates that company's asset is overstated or the it is earning a very poor to negative return on its assets.

Once again, while calculating the EV to EBITDA with Macy's at 4.18 and JCP at 6.5 while the industry average is at 9.9 it indicates that M and JCP stocks are undervalued relative to the industry average.

Based on these intrinsic and relative valuation, I recommend to buy Macy's stocks.

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**Macy's, Inc. (M)***In thousands of USD*

<b>Income Statement</b>	<b>01/30/2016</b>	<b>01/28/2017</b>	<b>02/03/2018</b>	<b>2/3/2019</b>	<b>2/3/2020</b>	<b>2/3/2021</b>	<b>2/3/2022</b>	<b>2/3/2023</b>
Sales	\$ 27,079	\$ 25,778	\$ 24,837	\$ 24,862	\$ 24,887	\$ 24,912	\$ 24,936	\$ 24,961
Costs of goods sold (COGS)	\$ 15,435	\$ 14,563	\$ 14,161	\$ 14,110	\$ 14,124	\$ 14,139	\$ 14,153	\$ 14,167
Sales, general and administrative expense (SGA)	\$ 8,256	\$ 8,265	\$ 8,131	\$ 8,055	\$ 8,063	\$ 8,071	\$ 8,079	\$ 8,087
Depreciation	\$ 1,061	\$ 1,058	\$ 991	\$ 1,008	\$ 1,009	\$ 1,010	\$ 1,011	\$ 1,013
<b>Operating profit</b>	<b>\$ 2,327</b>	<b>\$ 1,892</b>	<b>\$ 1,554</b>	<b>\$ 1,688</b>	<b>\$ 1,690</b>	<b>\$ 1,691</b>	<b>\$ 1,693</b>	<b>\$ 1,695</b>
Interest expense	\$ 361	\$ 363	\$ 300	\$ 356	\$ 303	\$ 268	\$ 232	\$ 195
Interest income	-	-	-	-	-	-	-	-
Nonoperating income (Expense)	-	-	-	-	-	-	-	-
Earnings before taxes (EBT)	\$ 1,966	\$ 1,529	\$ 1,254	\$ 1,332	\$ 1,387	\$ 1,423	\$ 1,461	\$ 1,500
Tax expense	\$ 712	\$ 548	\$ (24)	\$ 226	\$ 235	\$ 241	\$ 248	\$ 254
Net income before extraordinary items	\$ 1,254	\$ 981	\$ 1,278	\$ 1,107	\$ 1,152	\$ 1,182	\$ 1,213	\$ 1,246
After-tax extraordinary income (Expense)	\$ (184)	-\$ 370	\$ 258	\$ (50)	\$ (50)	\$ (50)	\$ (50)	\$ (50)
<b>Net income (NI)</b>	<b>\$ 1,070</b>	<b>\$ 611</b>	<b>\$ 1,536</b>	<b>\$ 1,057</b>	<b>\$ 1,102</b>	<b>\$ 1,132</b>	<b>\$ 1,163</b>	<b>\$ 1,196</b>
Dividends—preferred	-	-	-	-	-	-	-	-
Dividends-- common	\$ 456	\$ 459	\$ 461	\$ 463	\$ 465	\$ 467	\$ 469	\$ 471
Additions to RE	\$ 614	\$ 152	\$ 1,075	\$ 594	\$ 637	\$ 665	\$ 694	\$ 725
<b>Balance Sheet</b>	<b>01/30/2016</b>	<b>01/28/2017</b>	<b>02/03/2018</b>	<b>2/3/2019</b>	<b>2/3/2020</b>	<b>2/3/2021</b>	<b>2/3/2022</b>	<b>2/3/2023</b>
<b>Assets</b>								
Cash	\$ 1,109	\$ 1,297	\$ 1,455	\$ 1,354	\$ 1,355	\$ 1,356	\$ 1,358	\$ 1,359
Inventory	\$ 5,506	\$ 5,399	\$ 5,178	\$ 5,195	\$ 5,200	\$ 5,206	\$ 5,211	\$ 5,216
Accounts receivable	\$ 558	\$ 522	\$ 363	\$ 433	\$ 434	\$ 434	\$ 435	\$ 435
Other short-term operating assets	\$ 479	\$ 408	\$ 448	\$ 428	\$ 429	\$ 429	\$ 430	\$ 430
Short-term investments	-	-	-	-	-	-	-	-
Total current assets	\$ 7,652	\$ 7,626	\$ 7,444	\$ 7,411	\$ 7,418	\$ 7,425	\$ 7,433	\$ 7,440
Net plant, property, & equipment (PPE)	\$ 7,616	\$ 7,017	\$ 6,672	\$ 6,723	\$ 6,730	\$ 6,737	\$ 6,743	\$ 6,750
Other long-term operating assets	\$ 5,308	\$ 5,208	\$ 5,265	\$ 5,147	\$ 5,152	\$ 5,157	\$ 5,162	\$ 5,167
Long-term investments	-	-	-	-	-	-	-	-
<b>Total assets</b>	<b>\$ 20,576</b>	<b>\$ 19,851</b>	<b>\$ 19,381</b>	<b>\$ 19,280</b>	<b>\$ 19,300</b>	<b>\$ 19,319</b>	<b>\$ 19,338</b>	<b>\$ 19,358</b>

***Liabilities and Equity***

Accounts payable (AP)	\$ 2,730	\$ 2,458	\$ 2,595	\$ 2,484	\$ 2,487	\$ 2,489	\$ 2,492	\$ 2,494
Accruals	\$ 1,596	\$ 2,117	\$ 1,784	\$ 1,914	\$ 1,916	\$ 1,918	\$ 1,920	\$ 1,921
Other operating current liabilities	-	-	-	-	-	-	-	-
All short-term debt	\$ 1,279	\$ 906	\$ 603	\$ 5,502	\$ 4,876	\$ 4,223	\$ 3,540	\$ 2,827
Total current liabilities	\$ 5,605	\$ 5,481	\$ 4,982	\$ 9,900	\$ 9,279	\$ 8,629	\$ 7,951	\$ 7,243
Long-term debt	\$ 6,995	\$ 6,562	\$ 5,861	\$	\$	\$	\$	\$
Deferred taxes	\$ 1,477	\$ 1,443	\$ 1,122	\$ 1,257	\$ 1,258	\$ 1,259	\$ 1,260	\$ 1,262
Preferred stock	-	-	-	-	-	-	-	-
Other long-term liabilities	\$ 2,249	\$ 2,042	\$ 1,743	\$ 1,857	\$ 1,859	\$ 1,861	\$ 1,863	\$ 1,865
Total liabilities	\$ 16,326	\$ 15,528	\$ 13,708	\$ 13,013	\$ 12,395	\$ 11,749	\$ 11,074	\$ 10,369
Par plus PIC Less treasury (and other adjustments)	\$ 1,404	\$ 1,325	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600	\$ 1,600
Retained earnings (RE)	\$ 2,846	\$ 2,998	\$ 4,073	\$ 4,667	\$ 5,304	\$ 5,970	\$ 6,664	\$ 7,389
Total common equity	\$ 4,250	\$ 4,323	\$ 5,673	\$ 6,267	\$ 6,904	\$ 7,570	\$ 8,264	\$ 8,989
<b>Total liabilities and equity</b>	<b>\$ 20,576</b>	<b>\$ 19,851</b>	<b>\$ 19,381</b>	<b>\$ 19,280</b>	<b>\$ 19,300</b>	<b>\$ 19,319</b>	<b>\$ 19,338</b>	<b>\$ 19,358</b>

**Macy's, Inc. (M)***In millions of USD*

<b>Statement of Cash Flows</b>	<b>01/30/2016</b>	<b>01/28/2017</b>	<b>02/03/2018</b>	<b>2/3/2019</b>	<b>2/3/2020</b>	<b>2/3/2021</b>	<b>2/3/2022</b>	<b>2/3/2023</b>
<b><i>Operating Activities</i></b>								
Net income	\$ 1,070	\$ 611	\$ 1,536	\$ 1,352	\$ 1,354	\$ 1,355	\$ 1,356	\$ 1,358
Depreciation	\$ 1,061	\$ 1,058	\$ 991	\$ 1,008	\$ 1,009	\$ 1,010	\$ 1,011	\$ 1,013
Change in deferred tax	\$ 34	-\$ 34	-\$ 321	\$ 135	\$ 1	\$ 1	\$ 1	\$ 1
Change in inventory	\$ 10	\$ 107	\$ 221	-\$ 17	-\$ 5	-\$ 5	-\$ 5	-\$ 5
Change in accounts receivable	-\$ 134	\$ 36	\$ 159	-\$ 70	-	-	-	-
Change in other short-term operating assets	\$ 14	\$ 71	-\$ 40	\$ 20	-	-	-	-
Change in accounts payable	-\$ 80	-\$ 272	\$ 137	-\$ 111	\$ 2	\$ 2	\$ 2	\$ 2
Change in accruals	-\$ 80	\$ 521	-\$ 333	\$ 130	\$ 2	\$ 2	\$ 2	\$ 2
Change in other current liabilities	-	-	-	-	-	-	-	-
<b>Net cash from operating activities</b>	<b>\$ 1,895</b>	<b>\$ 2,098</b>	<b>\$ 2,350</b>	<b>\$ 2,446</b>	<b>\$ 2,363</b>	<b>\$ 2,365</b>	<b>\$ 2,367</b>	<b>\$ 2,370</b>
<b><i>Investing Activities</i></b>								
Investment in PPE	-\$ 877	-\$ 459	-\$ 646	-\$ 1,060	-\$ 1,016	-\$ 1,017	-\$ 1,018	-\$ 1,019
Investment in other long-term oper. ass.	-\$ 326	\$ 100	-\$ 57	\$ 118	-\$ 5	-\$ 5	-\$ 5	-\$ 5
<b>Net cash from investing activities</b>	<b>-\$ 1,203</b>	<b>-\$ 359</b>	<b>-\$ 703</b>	<b>-\$ 941</b>	<b>-\$ 1,021</b>	<b>-\$ 1,022</b>	<b>-\$ 1,023</b>	<b>-\$ 1,024</b>
<b><i>Financing Activities</i></b>								
Change in short-term debt	\$ 637	-\$ 373	-\$ 303	\$ 4,604	-\$ 877	-\$ 876	-\$ 875	-\$ 875
Change in long-term debt	-\$ 270	-\$ 433	-\$ 701	-\$ 5,861				
Change in other long-term liabilities	\$ 2	-\$ 207	-\$ 299	\$ 114	\$ 2	\$ 2	\$ 2	\$ 2
Change in common stock (Par + PIC)	-\$ 1,742	-\$ 79	\$ 275	-	-	-	-	-
Common dividends	-\$ 456	-\$ 459	-\$ 461	-\$ 463	-\$ 465	-\$ 467	-\$ 469	-\$ 471
<b>Net cash from financing activities</b>	<b>-\$ 1,829</b>	<b>-\$ 1,551</b>	<b>-\$ 1,489</b>	<b>-\$ 1,606</b>	<b>-\$ 1,340</b>	<b>-\$ 1,341</b>	<b>-\$ 1,343</b>	<b>-\$ 1,344</b>
Net cash flow	-\$ 1,137	\$ 188	\$ 158	-\$ 101	\$ 1	\$ 1	\$ 1	\$ 1
Starting cash	\$ 2,246	\$ 1,109	\$ 1,297	\$ 1,455	\$ 1,354	\$ 1,355	\$ 1,356	\$ 1,358
<b>Ending cash</b>	<b>\$ 1,109</b>	<b>\$ 1,297</b>	<b>\$ 1,455</b>	<b>\$ 1,354</b>	<b>\$ 1,355</b>	<b>\$ 1,356</b>	<b>\$ 1,358</b>	<b>\$ 1,359</b>

<b>Ratios</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>
<b><i>Productivity Ratios</i></b>					
Growth in sales	-3.7%	-4.8%	-3.7%	0.6%	N/A
Receivables turnover	68.42	49.38	48.53	66.29	63.77
Inventory turnover	4.80	4.77	4.92	5.10	5.03
Operating working capital turnover	8.10	8.45	8.14	6.70	6.43
Net fixed asset turnover	2.08	2.11	2.10	2.20	2.16
Total asset turnover	1.28	1.30	1.32	1.31	1.29
Invested capital turnover	1.66	1.69	1.67	1.66	1.62
<b><i>Liquidity Ratios</i></b>					
Current ratio	1.49	1.39	1.37	1.69	1.64
Quick ratio	0.45	0.41	0.38	0.62	0.59
Cash ratio	0.29	0.24	0.20	0.44	0.43
Short-term investments over invested capital	0.00	0.00	0.00	0.00	0.00
Operating Cycle	81.43	83.84	81.74	77.14	78.34
Cash Cycle	43.29	49.03	44.94	40.65	43.02
<b><i>Financial Risk (Leverage) Ratios</i></b>					
Total debt-to-equity ratio	2.42	3.59	3.84	2.99	2.46
Total debt-to-equity ratio (excluding deferred taxes)	2.22	3.26	3.49	2.72	2.19
Total financial debt-to-equity ratio	1.14	1.73	1.95	1.47	1.23
Interest coverage ratio (accounting-based)	5.18	5.21	6.45	7.04	7.13
Interest coverage ratio (cash-based)	8.48	8.13	9.39	9.57	9.76
Total debt-to-assets ratio	0.71	0.78	0.79	0.75	0.71
Total financial debt over invested capital	0.33	0.38	0.40	0.37	0.35
Long-term financial debt over invested capital	0.39	0.43	0.43	0.43	0.39
<b><i>Profitability/Valuation Ratios</i></b>					
Gross profit margin	43.0%	43.5%	43.0%	43.7%	43.8%
EBITDA margin	10.2%	11.4%	12.5%	14.0%	13.6%
Operating profit margin	6.3%	7.3%	8.6%	10.3%	9.9%
NOPAT margin	5.1%	4.6%	5.6%	6.4%	13.0%
Earnings before taxes margin	5.0%	5.9%	7.3%	8.8%	8.5%
Net margin	6.2%	2.4%	4.0%	5.4%	5.3%
Return on Assets	8.02%	9.53%	11.31%	13.45%	12.79%
Net investment rate	-21.70%	-82.52%	-47.77%	-17.74%	475.74%
Dividend payout ratio	30.01%	75.12%	42.62%	27.59%	24.16%
ROIC	8.27%	7.26%	8.94%	10.37%	N/A

